

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07

RSC-01 CIEP-03 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 AEC-11 DODE-00

FEAE-00 FPC-01 INT-08 PM-07 SAM-01 SCI-06 DRC-01 /214 W

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R 121444Z SEP 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3811

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

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DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: CHANCELLOR HEALEY'S VIEWS ON INTERNATIONAL MONE-  
TARY AND ECONOMIC TOPICS

SUMMARY: IN SPEECH TO INTERNATIONAL AUDIENCE CHANCELLOR  
HEALEY STRESSED DANGERS O BEGGAR-MY-NEIGHBOR POLICIES AND  
WORLD DEPRESSION IF COUNTRIES FOLLOW INCOMPATIBLE BALANCE  
OF PAYMENTS AIMS. HE SEES MANY FINANCIAL CHANNELS  
INVOLVED IN RECYCLING PETRODOLLARS; EURO-MARKETS, BILATER-  
AL ARRANGEMENTS, IMF, EC, POSSIBLY BIS. UK HAVING NO  
TROUBLE FINANCING ITS OIL DEFICIT. US MAY HAV SPECIAL  
ROLE TO PLAY IN RECYCLING. REGULAR MEETINGS OF FINANE  
MINISTERS WILL BE VITAL COMPONENT IN SOLUTION OF ECONO-  
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MIC PROBLEMS. COORDINATION OF NATIONAL ECONOMIC

POLICIES PRECONDITION TO SURVIVAL. END SUMMARY.

1. SPEAKING BEFORE THE NATIONAL INDUSTRIAL CONFERENCE BOARD MEETING IN LONDON ON SEPTEMBER 10, CHANCELLOR HEALEY OFFERED EXTENSIVE COMMENTS ON INTERNATIONAL MONETARY SITUATION. HIGHLIGHTS FOLLOW.

2. EFFECT OF FOURFOLD INCREASE IN OIL PRICES MEANS MASSIVE INJECTION OF DEFLATION INTO THE WORLD ECONOMY -- A REDUCTION OF \$80 BILLION PER YEAR IN THE WORLD DEMAND FOR GOODS AND SERVICES. STUPENDOUS MAGNITUDE OF PETRODOLLAR SURPLUS PRESENTS TWO IMMENSE DANGERS. FIRST IS THAT IF CONSUMER COUNTRIES EACH CONTINUE AS USUAL TO SEEK BALANCE IN EXTERNAL PAYMENTS THEY CANNOT ALL HOPE TO SUCCEED. COLLECTIVE DEFICIT OF SOME \$80 BILLION IS INEVITABLE, BUT DESPERATE EFFORTS FOR EXTERNAL BALANCE WOULD PROVOKE CUTOAT COMPETITION, WITH WEAKER COUNTRIES SUFFERING SEVERE ECONOMIC DAMAGE BEYOND SOCIALLY AND POLITICALLY TOLERABLE LIMITS. UK HAS LARGE NON-OIL DEFICIT WHICH IT HOPES TO ELIMINATE ALTOGETHER BY THE END OF 1975 BY MAKING CERTAIN THAT LEVEL OF DOMESTIC DEMAND IN BRITAIN LEAVES ROOM FOR EXPORTS. HOWEVER, IF IN THIS NEW SITUATION ALL OIL CONSUMING COUNTRIES SEEK BALANCE IN THEIR PAYMENTS ON OIL ACCOUNT, RESULT WOULD BE WORLDWIDE CATASTROPHE.

3. SECOND DANGER IS IF IN ADDITION TO BEGGAR-MY-NEIGHBOR POLICIES, GOVERNMENTS SEEK TO REDUCE RISE IN DOMESTIC PRICES THROUGH MASSIVE REDUCTIONS IN DEMAND BEYOND REDUCTIONS ALREADY IMPOSED BY INCREASE IN OIL PRICES, CURRENT DECLINE COULD LEAD TO A WORLDWIDE SLUMPT ON SCALE OF THIRTIES.

4. MASSIVE PAYMENTS DEFICITS ON OIL ACCOUNT FOR SOME YEARS TO COME ARE INEVITABLE. MEANS MUST BE FOUND FOR FINANCING THE DEFICITS. PETRODOLLAR SURPLUSES MUST BE RECYCLED TO MATCH NEED OF CONSUMER COUNTRIES. PETRODOLLAR SURPLUSES SHOULD BE HELD SOMEWHERE IN THE CONSUMER COUNTRIES, THEREFORE IT IS A PROBLEM WHOSE SOLUTION LIES WITHIN THE COMPETENCE AND RESPONSIBILITY OF CONSUMING COUNTRIES THEMSELVES.

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5. THUS FAR, JOB OF RECYCLING HAS BEEN DONE SKILFULLY THROUGH PRIVATE BANKING SECTOR AND EUROMARKETS, BUT EURO-MARKETS WILL NEED SUPPLEMENTING BY OTHER MECHANISMS ALTHOUGH THEY WILL STILL HAVE MAJOR ROLE TO PLAY, PROVIDING GOVERNMENTS CAN EXERCISE EFFECTIVE SURVEILLANCE OF THEIR ACTIVITIES AND CENTRAL BANKS CAN AGREE ON WHERE RESPONSIBILITY SHOULD LIE WHEN SPECIAL DIFFICULTIES ARISE.

6. BETTER ARRANGEMENTS FOR SURVEILLANCE AND RESPONSIBILITY ARE NEEDED. MUCH PUBLICIZED BANK FAILURES ARE DUEV TO IRRESPONSIBLE FOREIGN EXCHANGE SPECULATION, NOT RECYCLING OF PETRODOLLARS. THESE FAILURES HAVE INCREASED DETERMINATION OF GOVERNMENTS AND CENTRAL BANKS TO MONITOR AND WHERE NECESSARY CONTROL ACTIVITY OF THEIR OWN PRIVATE BANKING SECTOR. THIS DECISION, REACHED BY FINANCE MINI-UNCLASSIFIED

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STERS IN FRANCE LAST WEEKEND AND ENDORSED AS BASLE, WILL

PLAY VALUABLE ROLE IN CALMMING NERVES OF INTERNATIONAL MONEY MARKETS AND FORTIFY ABILITY OF PRIVATE BANKING SECTOR TO PLAY CONTINUING ROLE IN RECYCLING PETRODOLLAR SURPLUS.

7. HOWEVER, PRIVATE MARKETS CANNOT BE RELIED ON TO DO ENTIRE JOB. MUCH CAN BE DONE BY BILATERAL AGREEMENTS BETWEEN INDIVIDUAL CONSUMER AND PRODUCER COUNTRIES, SUCH AS RECENT U.K.-IRANIAN ARRANGEMENT.

8. THERE MAY BE CASES WHERE INDIVIDUAL CONSUMERS ARE UNABLE TO MAKE THEIR OWN ARRANGEMENTS IN THIS WAY AND A MULTILATERAL INSTRUMENT IS REQUIRED. EC WILL BE DISCUSSING NEXT WEEK IN BRUSSELS NEGOTIATING A BORROWING BETWEEN EC AS A WHOLE AND THE OIL PRODUCERS WHICH COULD BE DRAWN ON BY INDIVIDUAL EC MEMBERS.

9. HEALEY PERSONALLY BELIEVED THAT THE BANK FOR INTERNATIONAL SETTLEMENTS MIGHT ALSO PLAY A USEFUL ROLE.

10. IN ADDITION, THERE IS ALSO SCOPE FOR SOME DEVELOPMENT OF THE WITTEVEEN \$3.5 BILLION FACILITY BY WHICH IMF HAS BORROWED FROM OPEC COUNTRIES AT INTEREST BELOW COMMERCIAL RATE. BUT TO HELP THOSE INDUSTRIAL COUNTRIES WHICH ARE BETTER OFF, THERE IS A STRONG CASE FOR CONSIDERING WHETHER A FURTHER BORROWING FACILITY COULD BE ARRANGED BY IMF OF FAR GREATER SIZE, BUT AT COMMERCIAL RATES OF INTEREST.

11. THERE IS WIDE DIFFERENCE IN NEED OF INDIVIDUAL COUNTRIES. UK IS STEADILY RECEIVING SUBSTANTIAL NET INFLOW OF FOREIGN FUNDS AND IS HAVING NO DIFFICULTY IN FINANCING ITS PART OF THE INTERNATIONAL OIL DEFICIT. (FOR DETAILS SEE LONDON 11725.) UK HAS NOT NEEDED TO DRAW ON THE 2.5 BILLION DOLLAR BORROWING ARRANGEMENT MADE IN EUROMARKETS LAST MARCH. UK EXPECTS THAT OIL PRODUCED OFF ITS SHORES WILL MEET ABOUT HALF OF UK'S REQUIREMENTS IN 1977 AND MORE THAN ALL OF ITS REQUIREMENTS BY 1980. UK'S PROBLEMS IN THIS REGARD ARE LESS THAN THOSE FACED BY SOME OTHERS.

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12. USA MAY BE FACING OPPOSITE PROBLEMS FROM MOST OF CONSUMER COUNTRIES IF, AS SOME THINK LIKELY, OIL PRODUCERS WISH TO HOLD IN THE U.S. A FAR GREATER PART OF THEIR SURPLUS THAN IS REQUIRED TO FINANCE THE US EXTERNAL DEFICIT ON OIL ACCOUNT. IF SO, SPECIAL ARRANGEMENTS FOR RECYCLING THESE FUNDS WILL BE REQUIRED.

13. ENTIRE PROBLEM FRAUGHT WITH UNCERTAINTIES. MUCH

DEPDENDS ON POLITICAL DEVELOPMENTS IN THE MIDDLE EAST.  
PICTURE CAN E TRANSFORMED AT ANY TIME. THEREFORE FINANCE  
MINISTERS OF US, JAPAN AND LEADING EUROPEAN COUNTRIES HAVEM  
AGREED TO MEET REGULARLY IN PRIVATE OVER THE COMING MONTHS  
IN ORDER TO DISCUSS THE SITUATION AS IT DEVELOPS  
AND TO ADJUST THEIR ATTITUDES AND POLICIES AS SOME OF THE  
PRESENT UNCERTAINTIES DIMINISH. THEIR WORK WILL BE VITAL  
COMPONENT IN SOLUTION OF ECONOMIC PROBLEMS FACED BY GOV-  
ERNMENT AND BY PRIVATE BUSINESS THROUGHOUT THE WORLD.  
INTERNATIONAL DISCUSSION OF CURRENT TROUBLES  
MAKES COMPATIBILITY AND COORDINATION OF NATIONAL POLICIES  
A PRECONDITION OF SURVIVAL.

14. DURING HIS DOMESTIC COMMENTS, HEALEY INDICATED THAT  
ONCE THE RIGHT RELATION BETWEEN DEMAND AND SUPPLY HAS  
BEEN ACHIEVED, THERE IS NO EVIDENCE THAT A FURTHER RE-  
DUCTION IN DEMAND WOULD CUT INFLATION FURTHER. ON THE  
CONTRARY, IT WOULD INCREASE UNIT COSTS AND PROVOKE SOCIAL  
CONFLICT AT AN UNACCEPTABLE ECONOMIC COST (FOR BACKGROUND  
SE LONDON A-724).

15. EMBASSY COMMENT. PRESUME MANY OF THE CHANELLOR'S  
INTERNATIONAL COMMENTS WILL BE ECHOED IN HIS SPEECH AT  
THE IMF/IBRD MEETING.SOHM

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## Message Attributes

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